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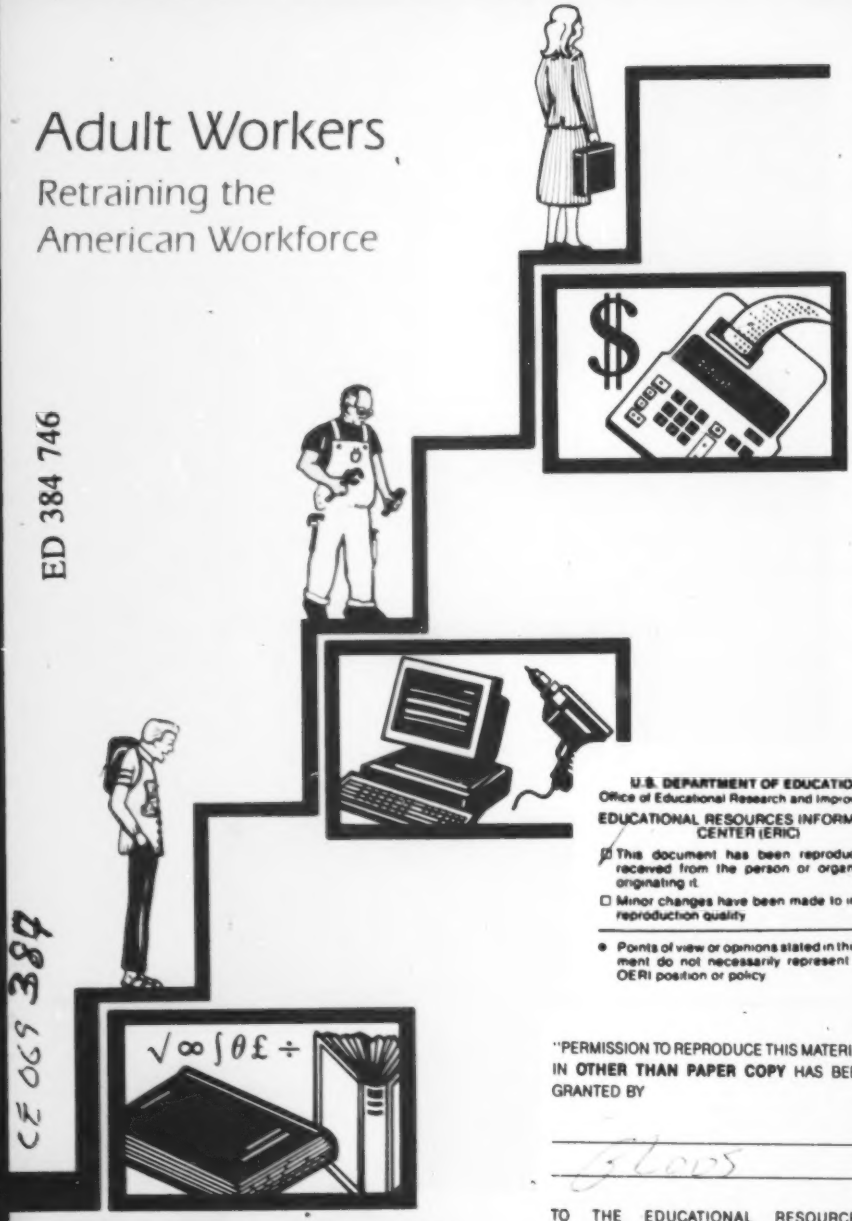
ABSTRACT

Because their fiscal health depends on having a large base of high-wage taxpayers, states have an economic interest in increasing their citizens' skill levels. In today's global economy, high wages are increasingly tied to the high skills required to function successfully in high performance work organizations. Employer-provided skill upgrading for most U.S. workers is either inadequate or nonexistent as firms seek to minimize operating costs. Publicly supported efforts to train adult workers cannot succeed by simply building upon the foundations of existing state education policies/practices because nearly all current spending on human resource development supports primary, secondary, and higher education. Several states, including Alabama, California, Connecticut, Illinois, and Iowa, are involved in the following types of innovative activities to target training and education toward workers and firms in the private sector: provide high priority assistance to companies developing high performance organizations that take full advantage of broadly skilled workers and flexible production systems; finance worksite-based skill improvement; use tax and bond systems to meet the need for reliable funding of training programs; and use tax credits to train work forces through state-approved providers. (A list of 7 contact persons is appended. Contains 14 references. (MN)

Investing In People

Adult Workers

Retraining the American Workforce



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Adult Workers

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Issue Paper No. 4
Investing in People Project

A joint project of
National Conference of State Legislatures
and
Jobs for the Future

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January 1995

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Preface and Acknowledgments

This report is part of the Investing in People (IIP) Project financed by the DeWitt Wallace-Reader's Digest Fund. The fund's overall goal is to help American youth fulfill their educational and career aspirations. The fund's support and commitment to the IIP project is greatly appreciated.

During this project the National Conference of State Legislatures (NCSL) and Jobs for the Future (JFF) helped six states—Connecticut, Iowa, Kentucky, Ohio, Washington, and West Virginia—develop and implement workforce preparation and training strategies to meet the challenge of a competitive global economy. Each state selected teams made up of legislators, legislative staff, business leaders, educators, labor representatives, and other political and civic leaders to help develop and implement long-range strategies that coordinate and improve education, workforce training, and economic development systems. The project included two policy institutes, extensive technical assistance, and several issue papers. This paper is the fourth in the series.

Special thanks are due for the time and efforts of Anthony Sarmiento of the AFL-CIO in Washington, D.C.; Representative Dave Ennis of Delaware; and Steve Ovel of Kirkwood Community College in Cedar Rapids, Iowa, who acted as outside readers of this report.

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Executive Summary

High skills are important for workers in today's increasingly interconnected world. Employees who lack the abilities to independently analyze problems, operate in teams, and continually learn and improve have little hope of earning high wages. American firms, along with their international competitors, regularly ship low-skill jobs to locations that pay lower wages. Only highly skilled workers have a promising future in this fluid global economy.

Because their fiscal health depends on large bases of employed, taxpaying adults, states have an economic interest in increasing the skill levels of their citizens. It makes little sense for a state to stake its future on a low-paid, low-skill labor force in an era when the businesses that employ such workers can move anyplace in the world that offers lower wages. States can help ensure the existence of a solid economic base by encouraging the development of a highly skilled citizenry equipped with talents not easily found elsewhere.

Some question the wisdom of state involvement in an area that, at first glance, seems to be the exclusive role of private firms. After all, it is reasoned, business people know more about their own operations than any outside observers, and their continued success is all the incentive they need to train their employees. While this is true in many cases, certain economic disincentives make it less likely firms will always, of their own accord, undertake skill development for their workforces. High training costs, the fear of losing trained employees to competitors, and continuing reliance on established, if obsolescent, operating systems all combine to deter large numbers of firms from establishing widespread skill upgrading programs. Support from the public sector in overcoming these obstacles can pave the way for more competitive firms, workers, and states.

Publicly supported efforts to train adult workers cannot succeed by simply building upon the foundation of current state education practice. States typically devote over half their budgets to activities that fit the definition of human resource development, but some 80 percent to 90 percent of this spending supports primary, secondary, and higher education. The majority of working adults will not benefit from reform efforts currently under way in these systems, aimed as they are primarily at people who have not yet entered the workforce.

Several states are involved in the kind of break-the-mold activities needed to target training and education to workers and firms in the private sector. Connecticut provides priority assistance to companies that develop high performance organizations that take full advantage of broadly skilled workers and flexible production systems. Grants in Illinois finance worksite-based skill improvement. Iowa and California have pioneered creative new tax and bond systems to fulfill the requirement for reliable funding of training programs. Where states have long offered tax credits to firms that hire new workers, Alabama now uses credits to encourage employers to train their workforces through state-approved providers.

In each of these cases, states are finding ways to provide direct skill-building assistance to private firms and their employees. By cultivating greater skills and making it possible for workers to use their abilities more efficiently, these states are helping make their resident businesses, citizens, and, by extension, themselves more competitive in a fast-paced, hyper-competitive global economy.

High Skills = High Wages

High wages in today's global economy are increasingly tied to quality and flexibility in the production of goods and the delivery of services. Firms that wish to remain competitive in this environment must be able to respond quickly to shifting consumer tastes. Rapid changes are best handled in high-performance workplaces that put a premium on workers who are broadly skilled and capable of operating in small, self-directed teams. These increased abilities lead to wages that are greater than those paid to workers in more traditional assembly-line style operations. In order to prosper in this quickly evolving environment, however, America's front-line workers need to develop a wide variety of technical and managerial skills far different from what has traditionally been required of them.

The high skills-high wages equation threatens large numbers of low-skilled Americans who earn less than they otherwise might because they work for the 90 percent of employers that scrape by using outdated methods and models. Skill upgrading for the majority of American workers is either inadequate or nonexistent as firms seek to squeeze the last ounce of output from obsolete methods and technologies. Several recent developments indicate that the training of adult workers must become a priority if Americans expect to flourish in the world economy of the 21st century:

- In the past, Americans could receive high pay for work that required a relatively low level of skills, but today such jobs are being exported to nations that pay lower wages. Many observers, including high-ranking members of the Clinton administration, believe the best hope of maintaining higher wages lies in the implementation of high-performance work organizations that emphasize continual learning and quality processes. Workers in such firms must be able to undertake tasks far beyond what was required of them in traditional, limited-skill assembly-line plants.

- Worker retraining must be considered separately from the growing school reform movement. Some 75 percent of the people who will make up the workforce of the year 2000 are already out of school and on the job. Their abilities cannot be upgraded via the primary and secondary school systems. Alternative methods must be found to reach adults in the workplace.

- Though employers as a whole spend billions of dollars each year training their existing workforces, the bulk of this investment comes from a tiny fraction of firms and primarily benefits skilled professionals. Businesses aiming to remain competitive will need to cast their training nets wider to reach employees at all levels of the organization.

- Increased use of computers and advanced information systems are revising the definition of what constitutes a skilled employee. A 1993 article on training stated, "The growth of quality-oriented manufacturing requires workers skilled in fields like statistical process control—yet as much as 20 percent of the labor force is functionally illiterate."[1]

Because of economic disincentives that will be discussed later, businesses do not always find it in their immediate interest to invest in upgrading the skills of their employees. In order to help remedy this shortcoming and better prepare the majority of workers for the changing international economy, it is essential that governments take an interest in the skill level of the existing adult workforce.

Depending on its intent, training can be active or reactive. Active programs anticipate future skill shortages by upgrading workers' abilities before jobs are lost, whereas reactive efforts are started only after layoffs and plant closings have begun. Research has found that reactive programs are more expensive and have mixed records of achievement, whereas successful active programs take time to implement.[2] This report deals primarily with active programs and philosophies.

Obstacles to Training Adult Workers

If competitive ability is tied so closely to maximizing the utility of as many people as possible, why has training for adult workers been assigned such a low priority? The reasons are many, ranging from denial of the need for training on the part of both employers and employees, to training expenses incurred by businesses, to the targeting of most state and federal employment and training assistance at those not already in the workplace (non-adult, disadvantaged, or dislocated).

Many businesspeople publicly endorse the value of workforce training, but their actions belie their statements. In four states examined by the U.S. Department of Labor, two-thirds of employers surveyed said education and training was a good or excellent investment of company resources. Yet the majority of these employers spent less than $5,000 annually on education and training.[3] In 1990, the Commission on the Skills of the American Workforce found more than 80 percent of business respondents more concerned about workers' attitudes and

personalities than about their basic skills. Only 15 percent of those polled were worried about shortages of skilled workers.[4]

Negative attitudes. Workers who might be expected to realize benefits from training may actually have negative feelings about such programs. Ohio State University's Center on Education and Training for Employment found that many employees do not evaluate a job on its potential as a career path and are averse to taking risks. The study suggests several ways to overcome such resistance, including the following:

- Confront specific problems and concerns;
- Ensure a short time frame;
- Talk in terms of options and opportunities; and
- Create a central source of help and information.

Costs. Many firms have cited the costs associated with comprehensive training as a major reason for not adopting or expanding programs. Expenses can be especially intimidating for small firms, which have fewer workers among whom to spread the fixed costs of training. Firms of any size that make use of on-the-job training face lost time and reduced productivity on the part of the mentors who help trainees master new skills. Firms also face the dilemma of "free riders," or "poaching," whereby an employee who has completed training leaves to work for a competitor. The new employer benefits from training without incurring any of the costs. This problem is not as serious in the case of job-specific training that is of less use to firms operating under different practices. Still, frequent turnover in the fluid U.S. labor market makes poaching a real deterrent to increased training by firms.

Though employers and employees may believe they have reason to resist providing or undergoing training, their resistance appears increasingly futile in the face of international economic trends that put a premium on product quality and choice. Firms and workers aiming to satisfy this demand find themselves enrolled in a symbiotic alliance that rewards high skills and progressive management at the same time it gains market share and delivers well-paid employment. In recent years the high-performance organization has emerged as one of the primary models being explored to maximize the potential of workers, heighten customer satisfaction, increase the quality of outputs, and improve the firm's responsiveness.

The Rise of the High-Performance Organization

Though they are perched on the brink of a new century, 95 percent of American businesses still operate basically as they did 50 years ago. This traditional

system relies on thick layers of middle managers to make decisions for front-line workers whose foremost qualifications for their jobs are the abilities to follow orders and endlessly repeat limited-skill, routine procedures.

In the heyday of the traditional firm, sparse international competition allowed businesses to pay high wages to low-skilled workers by passing costs on to consumers. The worldwide spread of mass production technology, however, put low-cost systems within the reach of firms everywhere. According to Anthony Carnevale of the American Society for Training and Development, "The competitive advantage of the less-developed nations lies with their low-wage, low-skilled labor pool. The competitive advantage of developed nations lies in the application of technological advances in combination with an increasingly skilled and adaptable work force."[5] In contrast to traditional systems, which rely on managers to make decisions for minimally skilled line workers, high-performance work organizations (HPWOs) place advanced technology in the hands of skilled employees and stress quality, flexibility, and rapid response to changing market trends.

To take full advantage of HPWO flexibility, front-line workers must be skilled in a wide variety of operations, be able to work in teams, and have enough knowledge of the overall production process to recommend changes that will improve the quality of finished products. Because their jobs have never before required these abilities, the majority of Americans today lack the broad base of cognitive and social skills needed to perform these advanced functions. It is up to employers to create workplace environments that place a premium on high skills and provide workers with the opportunity to acquire these skills.

In 1994, **Connecticut** passed Public Act 94-116 to support organizations trying to implement high-performance concepts. Workplaces that fit the definition of a high-performance firm receive first priority for economic development grants and customized job training assistance. For the purposes of this act, Connecticut defines high-performance organizations as those possessing the following attributes:

- Commitment to continuous improvement
- Decentralized decision making
- Flexible team structures
- Customer-driven product development
- Innovative compensation programs such as profit-sharing and skill-based pay
- Participation in a state-approved school-to-work education program (see appendix for contact).

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Training in the Workplace

Connecticut is just one of many states that are developing school-to-work systems. Policymakers from the president on down have focused on the need to strengthen the connection between school and work for American students. Though states are currently making important strides toward linking school lessons with their real-world applications, this effort has little relevance for the three-quarters of the 21st-century workforce who are already out of school and on the job. These employees will be largely unaffected by reforms of the primary and secondary education systems. They must be trained at or near the worksite.

Some companies are already taking steps to reach their workers on the job. A 1994 Price Waterhouse survey found that 84 percent of firms operating training programs use in-house resources. The majority of these companies are service-sector firms that contract with a single training source. Larger companies are more likely to use a variety of training providers and tend to rely more heavily on outside consultants. Manufacturing firms often access community colleges, technical and vocational schools, and four-year colleges and universities.[5]

A variety of vendors are available to employers who want to use outside sources to help train their workforces:

- **Local school districts** can provide instruction for trainees on their own time before or after work. Teachers may coordinate lesson plans with employee supervisors so training can reflect workplace needs.
- **State education agencies** feature divisions of adult education that can provide technical assistance or help with interagency coordination.
- **Private industry councils** funded through the Job Training Partnership Act provide training and education for dislocated workers and disadvantaged individuals.
- Education and continuing education departments located within **four-year colleges and universities** can provide businesses with help in developing their own training programs.
- Familiarity with local labor markets and employer needs makes **community colleges** well placed to provide flexible training services.
- Non-profit, **community-based organizations** (CBOs) direct specific services at clearly defined client groups, such as young people, minorities, or the disadvantaged. CBOs are especially active in literacy assistance programs.
- **For-profit organizations** include privately operated training facilities, also known as proprietary schools. These enterprises typically contract with private firms to deliver specific training services.

• **Libraries** may contract with businesses or other educational institutions to deliver services on their premises. These efforts often center on literacy instruction.[7]

Though not a public program like the other examples in this report, joint labor-management agreements show promise for reaching adults in the workplace, particularly in firms that operate under basic agreements with organized labor. One such arrangement is the Alliance for Employee Growth and Development co-sponsored by AT&T, the Communications Workers of America, and the International Brotherhood of Electrical Workers. A training fund established by this program serves workers displaced by layoffs as well as those who remain on the job. Such "joint funds" are supported by employer payments taken from funds that would otherwise go for wages, pensions, or other benefits, making the joint fund actually employee-based. Contributions range from five cents per worker-hour to 19 cents per worker-hour.[8]

According to one survey, this alliance both provides a model for increasing worker participation in training activities and improves accountability. Such programs can help overcome worker reluctance to take part in training. Worker/management teams can tailor training to employee needs and joint labor-management committees can help "sell" the plan to the workforce. The primary obstacle to more widespread use of such plans at the current time is the low level of union representation in the private sector.[9] Even so, just five such labor-management alliances (three in the auto industry and two in communications) pump a total of more than $300 million per year into training programs.[10]

Spending Billions, but What Is Gained?

It has been estimated that American firms spend at least $30 billion a year to train their employees, though 90 percent of this amount is spent by only about 0.5 percent of firms (about 15,000 companies). In addition, two-thirds of all corporate training goes toward upgrading the skills of managers, technicians, and other highly educated employees. Relatively little effort is aimed at the front-line workers so vital to the success of HPWOs. The increased responsibilities that will devolve upon front-line workers in HPWOs makes skill upgrading crucial in areas such as communication, decision making, and literacy.

Literacy: More Than It Used to Be

The definition of literacy in the workplace is being constantly upgraded. Technology advances at a dizzying pace, and indviduals, at least in HPWOs, must know more than ever before about the total productive process. The upshot is that fully literate people today need critical thinking, problem-solving, and communication skills far beyond anything required in the past.

The literacy problem is immense. According to Anthony Carnevale, at least 17 million American workers need remedial education in reading, writing, and math. He has estimated that reaching all 17 million would cost companies some $4 billion, roughly the amount Washington spends each year to operate the largest single federal training program, the Job Training Partnership Act.[11]

The U.S. Department of Education has defined three types of literacy that individuals must possess to function at an advanced level in modern American society:

- **Prose literacy** to understand and use information from texts that include editorials, news stories, poems, and fiction.
- **Document literacy** to locate and use information contained in materials that include job applications, transportation schedules, maps, and tables.
- **Quantitative literacy** to apply arithmetic operations, either alone or sequentially, using numbers embedded in printed materials such as restaurant checks, order forms, and loan advertisements.[12]

In 1992 the National Adult Literacy Survey interviewed 26,000 adults, age 16 and over. Respondents were placed in one of five levels of literacy achievement. Only one-fifth of the respondents in this survey ended up in the two highest levels, whereas another fifth placed in the lowest of the five categories. Despite this showing, large majorities of those in the two lowest levels described themselves as being able to read and write English "well" or "very well."

Illinois's Workplace Literacy Grant Program is the only state initiative providing funding for basic skills training. The program currently receives $500,000 in state general funds. Matching grants up to $10,000 are awarded directly to qualifying businesses, who independently contract with educational providers to develop and deliver basic skills programs at the worksite. In 1993, the program served 5,500 employees in some 58 businesses and leveraged $1,399,347 for literacy training. Most grants have been awarded to manufacturing firms (see appendix for contact).

The Role of Public-Supported Training

The 50 states and the federal government combine each year to target billions of dollars for training, but restrictions limit the usefulness of these programs for employed adult workers. Most federal assistance is aimed at people not necessarily in the workplace, such as disadvantaged youths and adults and unemployed workers. States allocate some 60 percent to 80 percent of their budgets for human resource development purposes, but 90 percent of this amount goes to support primary, secondary, and higher education. Less than 5 percent goes toward adult training and skill development.

The utility of public training to both businesses and individuals is further diluted by the way these programs are administered. State and federal efforts are marked by redundancy. Some 150 employment and training programs are scattered across 14 departments of the federal government, and many provide similar services to the same target clientele. Factor into this mix a broad array of state-funded programs that feature similar duplication, and the confusion facing potential clients becomes evident. The U.S. General Accounting Office (GAO) notes a further complication in the way programs differ in such basic characteristics as eligibility requirements and annual operating cycles. The GAO reports, "Despite decades of efforts to better coordinate employment training programs, conflicting requirements continue to make it difficult for program staff to coordinate activities and share resources."[13] Confusion, duplication, and a sprawling bureaucracy may partially explain why surveys indicate employers prefer privately provided training sources—with all their fiscal, personnel, and other costs—over publicly funded efforts.

Despite this bleak assessment, observers within the system believe the means exist for providing better service to agency customers. In a recent survey, administrators of state employment and training programs listed those activities they felt were most effective in promoting interagency cooperation. Among the most popular techniques were improved communication and information-sharing among agencies; interdepartmental liaisons and interagency task forces; uniform planning periods; joint funding of programs; establishment of electronic client service systems; universal eligibility and referral mechanisms; and development of consolidated application forms.[14]

This survey report states that techniques that help agencies cooperate in developing service delivery systems contribute the most to effective coordination.

Formal planning requirements, mandated activities, and official coordinating bodies were found to be much less helpful.[15] Despite this, the survey notes,

> There is a great deal of wasted effort as state decision makers and administrators continue to pursue approaches that they believe have a low payoff. Many of these low-payoff tools are either mandated by law or easier to implement. Less use is made of high-payoff approaches that are viewed as fostering cooperation and integrated operations. This is best illustrated by the development of electronic client service systems, which is viewed favorably by 70 percent of the respondents, although less than 30 percent indicate that their state has pursued it.[16]

One example of a flexible training program that has received broad praise is the **Illinois** Prairie State 2000 Authority. This effort, supported by a $6 million annual appropriation from the Illinois General Assembly, provides grants and and loans to qualifying businesses to retrain workers in new technologies. Prairie State 2000 aims to assist both firms and individuals. Small to medium-size companies may qualify for grants and loans, while individual workers may be eligible for retraining in new technologies.

Financing State Training Programs

Assuring consistent, adequate funding is a major consideration in assessing the prospects of state employment and training programs. Several states are pioneering innovative methods of paying for skill development activities.

California created the Employment Training Panel in 1982 to help businesses obtain the skilled workers they need to stay competitive, productive, and profitable. Employment Training Panel programs are funded by an employment training tax equal to 0.1 percent of a firm's unemployment insurance tax rate, a surtax that generates more than $100 million per year. This ETP charge is accompanied by a 0.1 reduction in the standard unemployment tax paid by the firm, so it does not register as an additional tax to employers. Because ETP uses unemployment insurance funds, its assistance is primarily aimed at workers who are currently unemployed or who face the prospect of imminent unemployment due to personnel cutbacks.

The program operates statewide and is characterized by heavy employer involvement, strong union participation, reliance on private training providers, and performance-based contracts that link reimbursement to 90-day job placement of trainees. The panel does not conduct training directly but instead contracts with businesses and training agencies. Program priorities include new skill training for the unemployed and workers who have received layoff notices, training for

businesses with fewer than 250 employees, retraining workers of larger firms whose jobs are threatened by competition from outside the state, and developing greater efficiency and competitiveness to ensure economic stability (see appendix for contact).

The **Iowa** Industrial New Jobs Training Act was established in 1983 to help businesses keep pace with national and international competitors. Community colleges sell certificates (both taxable and exempt from federal taxes) to investors on behalf of business. These certificates are similar to public bonds used to raise money for capital improvement projects such as schools. Training services are then tailored to meet the individual needs of each participating business. Programs range from adult basic education to technical training. Both formal training and on-the-job training are provided by the community colleges.

The certificates are repaid through diversion of increased payroll tax receipts generated by additional employment as a result of a company's placement or expansion in Iowa, as well as new training efforts. Repayment may also come from diversion of increased property taxes resulting from a firm's investment in its facility or in new equipment. Eligibility is limited to businesses engaged in manufacturing, processing, or assembling products; conducting research and development; or providing services in interstate commerce. Retail, health, and professional services are excluded from this program (see appendix for contact).

In 1993, the **Alabama** Legislature passed the Alabama Income Tax Credit in response to a 30 percent high school dropout rate and to give business and industry an incentive to work toward eradicating illiteracy in the state. The program is directed at businesses that provide basic skills education to employees who have worked at least 24 hours per week for at least 16 weeks. A tax credit worth 20 percent of the actual costs of education is provided to an employer that offers or sponsors an Alabama Department of Education-approved basic skills program (see appendix for contact).

Conclusion

The ever-changing world economy reserves its greatest rewards for quality and speed. The need to keep up with increasingly sophisticated consumer demands is making adult training and skill upgrading more important than ever. American firms that wish to remain competitive in a global market must be prepared to train their employees in new techniques and procedures to make both workers and businesses more flexible and productive.

Unfortunately, many employers are unwilling or unable to make this commitment. Their reasons include reluctance to break from established methods, the high costs of training, and the possibility of losing a newly trained employee to a competitor. These are places where state intervention can help fill a gap.

States also have a financial interest in promoting the development of a high-skill workforce. High-skill jobs typically pay higher wages, leading to greater tax revenues for the state. States that build their economic development strategy around low-skill industries and occupations face the danger of seeing these firms migrate to other locations that offer lower wages. In the modern global economy, no American state can prevail by attempting to bid wages downward. There is always someone who is willing to go lower.

States today are offering a variety of approaches designed to improve the skills of adult workers, and consequently make businesses (and states themselves) more competitive. **California's** Employment Training Program provides grants for firms and individuals to help mitigate the costs of training. **Connecticut's** legislature has made it an article of state policy that firms pursuing the high-performance model get first access to state assistance. **Illinois** is one of many states that have targeted resources to the critical task of upgrading literacy levels to meet the standards of an increasingly technical workplace.

The lesson in these examples is that states stand to lose much by staying on the sidelines rather than getting involved in training issues regarding adult workers. These workers make up the core of the workforce of the 21st century, and keeping their skills on the leading edge of development represents the best chance for American states and their resident firms to retain their competitive edge in today's fast-developing world. States can best approach the issue of adult training not by appealing to a corporation's altruism regarding its workforce, but by basing policy on a hard-headed reminder that states and businesses share many common interests in a dynamic but harshly competitive global marketplace.

Appendix: Contact List

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